



## Staff Report

### RESOLUTION AUTHORIZING THE ISSUANCE OF TAX REVENUE ANTICIPATION NOTES FOR FY 2010 (ANNUAL RENEWAL)

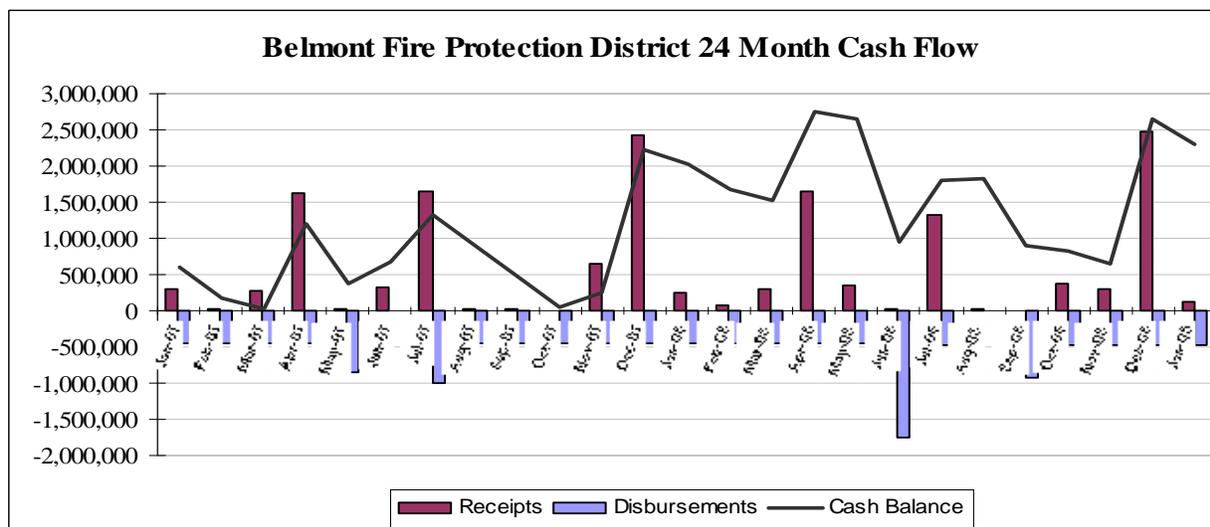
Honorable President and Board Members:

#### Summary

The Belmont Fire Protection District used to experience cash flow shortfalls due to timing differences between the semi-annual receipt of property taxes and the monthly disbursement of funds to operate the Belmont-San Carlos Fire Department. To bridge the temporary cash flow needs, beginning in FY 2008, the District issued Tax Revenue Anticipation Notes or TRANs. The attached resolution is the annual renewal for the TRANs program and authorizes the issuance of a maximum amount of \$1.0 million TRAN for FY 2010.

#### Background

The District's major revenue source is from property taxes received in semi-annual installments during December and April. The District is responsible for funding the normal operational needs of the Belmont-San Carlos Fire Department (Department) in equal installment throughout the year. As a result, the timing between the District's funding from property taxes and the Department's monthly operational needs causes temporary cash flow deficits. To cover the deficit, the District borrows monies by issuing a TRAN. As shown in chart below, the District incurred cash flow deficits. Since July 2008, the District has maintained positive cash flow.



## **Discussion**

### *What are TRANs?*

Tax Revenue Anticipation Notes or TRANs are a commonly used form of short-term borrowing to assist the governments with their cash flow requirements. TRANs are generally tax-free bonds issued on a 12 or 13 month basis specifically for the purpose of covering potential cash flow deficits for governmental agencies that rely heavily on property tax distributions as a source of revenue. When not actually needed for cash flow purposes, bond proceeds may be reinvested as authorized by the District's investment policy. As a result, TRANs can also provide an additional source of revenue if the cost of tax-exempt borrowing is less than the income gained from reinvestment of the funds in taxable instruments, thus producing a net gain for the District.

### *What's been the District's Past Practice?*

Prior to July 2008, the District covered temporary cash flow deficits by borrowing from the City's investment pool. While interperiod borrowing is a common practice with investment pools, the program is designed for short term borrowings and in amounts which do not adversely impact the City's liquidity requirements. Borrowings occur at the investment pool rate which fluctuates from time to time. Presently, the investment pool rate is 1.822% and is expected to increase during FY 2010.

The ongoing budgetary issues of the Fire District have been well publicized for years. However, the District's recurring cash flow deficits had not been well publicized. Those deficits were adversely affecting the liquidity of the City's investment pool.

Beginning in FY 2008, the Fire District Board authorized a change to fund the deficits through the issuance of a TRAN.

### *How much does the Fire District need to borrow?*

Staff has prepared a series of cash flow statements. Based on these calculations a deficit is expected in FY 2010. In addition, the TRANs program administrators include a working capital reserve. The resolution attached authorizes a maximum of \$1 million, providing staff with flexibility in the final sizing.

### *What are the costs involved?*

Since the District's borrowing would be combined with many other agencies throughout the state, the cost of issuance is relatively low given the size of the note. The issuance costs are not segregated and are part of the interest cost paid by the borrower. Presently, the program administrators have indicated an interest rate of 2.00% for a 13 month issue. Assuming a \$1 million loan amount, the cost of borrowing is \$21,548. By comparison, the cost of borrowing for the same loan would be \$19,629 based on the present rate earned on the City's investment pool. However, it is important to point out that under the current program; the District only borrows what it needs.

*What's the California Communities Joint Powers Authority TRANs Program and who's using it?*

California Communities' mission is to provide local governments and private entities access to low-cost, tax-exempt financing for projects that provide a tangible public benefit, contribute to social and economic growth and improve the overall quality of life in local communities throughout California. California Communities has issued nearly \$7.8 billion in Tax and Revenue Anticipation Notes (TRANs) serving nearly 150 California local governments since the inception of the TRANs Program in 1993. TRANs amounts have ranged from \$320 million to as little as \$100,000. The TRANs Program saves both time and money when compared to stand-alone borrowings. See the TRANs FAQ section attached as an exhibit to this report for more information.

*Are there other issues to consider?*

Like all debt issues, there is risk. The risk associated with issuing a TRAN is that the interest rate environment changes dramatically. Another consideration is that issuing a TRAN converts a soft debt into a hard debt. In general, hard debt reduces the District's flexibility in managing its assets as repayments become fixed obligations.

**Fiscal Impact**

Potential positive fiscal impact. Temporary excess TRANs proceeds can be reinvested in the City's investment pool potentially at rates higher than that borrowed, thereby producing interest income or arbitrage. The arbitrage effectively reduces the cost of borrowing the TRAN.

For purposes of completing the California Communities TRANs application, the resolution attached authorizes the issuance of a maximum \$1 million TRAN. The actual size of the issue is based on the District's anticipated cash flow needs and will be calculated prior to finalizing the program which is expected in June. It is expected to be less than the authorized amount of \$1 million.

**Public Contact**

1. Posting of City Council agenda.

**Recommendation**

Approve resolutions authorizing to issue Tax Revenue Anticipation Notes for Fiscal Year 2010 in a maximum amount of \$1 million.

**Alternatives**

1. Borrow from the City's investment pool.
2. Issue a stand alone debt obligation through a bank or other private placement lender.
3. With direction, refer the matter back to the staff for further study.

**Attachments**

- A. Resolution Authorizing Issuance of Tax Revenue Anticipation Notes for FY 2010 (Annual Renewal)
- B. TRANs Program FAQ

Respectfully submitted,

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## **Tax and Revenue Anticipation Notes**

### **Frequently Asked Questions**

#### **What are TRANs?**

TRANs are Tax and Revenue Anticipation Notes, also known as TANs (Tax Anticipation Notes) and RANs (Revenue Anticipation Notes.)

#### **Why are TRANs issued?**

TRANs are issued by local governments to finance short term cash flow deficits which occur due to the irregular receipt of certain taxes and/or revenues, and the ongoing requirement for regular disbursements of operating expenses.

#### **What are the benefits if issuing TRANs?**

There are two primary benefits of issuing TRANs. First, TRANs are an inexpensive method of financing short-term cash shortfalls. Second, TRANs usually produce additional income through arbitrage earnings.

#### **What is arbitrage?**

Arbitrage is a gain which occurs when the cost of borrowing funds is lower than reinvestment earnings.

#### **How do TRANs produce arbitrage earnings?**

TRANs are issued at tax-exempt borrowing rates which are typically one to two percentage points lower than available reinvestment rates.

#### **Is it legal to earn arbitrage on TRANs?**

Yes - provided the TRANs are issued in accordance with federal tax regulations relating to the sizing and issuance of tax-exempt short-term notes.

#### **How are TRANs issued?**

TRANs are permitted under Government Code §53850 and are authorized when the governing body adopts a resolution. Most local governments engage a bond attorney to prepare documentation, and use the services of an investment professional for the placement or underwriting of the notes.

**What are the advantages of issuing TRANS through the California Statewide Communities Development Authority (CSCDA) Program?**

The CSCDA program provides competitive costs of issuance, greater access to the financial markets through a larger combined issuance, and a streamlined process for issuing TRANS which saves California local governments' staff time. The CSCDA Program also offers two maturity options; 12 and 13 month maturities.

**What are the advantages of issuing notes which mature in 13 months rather than 12 months?**

The possibility of earning additional arbitrage earnings. The gain of 13 month TRANS is, on average, 8% greater than 12 month TRANS.

**What are the legal restrictions concerning the maturity of TRANS?**

State law restricts the maturity of TRANS to 15 months. Federal tax law limits the maturity to 24 months. Federal tax guidelines provide a "safe harbor" for TRANS that mature within 13 months of issuance. Therefore, the longest maturity permitted in the CSCDA Program is 13 months.

**Are there any other legal considerations when issuing 13 month TRANS?**

Yes. An interest payment must be made to investors within 12 months of issuance.

**Are there any accounting considerations when issuing 13 month TRANS?**

Yes. As with 12 month TRANS, state law requires that funds be set aside for the repayment of the TRANS from current fiscal year revenues, the current year being the fiscal year in which the TRANS are actually issued. While the maturity of the 13 month TRANS will fall into the next fiscal year, it is necessary to set aside funds from current year revenues for the repayment of the TRANS.

**Do I have to wait 13 months to issue my next TRANS?**

No. If a local government issues a 13-month TRANS on July 1, 2006 which matures on July 31, 2007, the local government may issue another TRANS on July 1, 2007, prior to the maturity of the 2006 TRANS.

**Will the issuance of a 13 month TRANS in 2007 affect the sizing of my 2008 TRANS?**

No.

**How does a local agency determine the amount of TRANS to issue?**

Federal tax laws determine the amount of tax exempt TRANS a local agency may issue in order to retain arbitrage earnings on the borrowing. TRANS borrowers fall into two categories under federal tax laws; Small Issuers and Large Issuers. Detailed instructions for properly sizing TRANS are provided (hard copy and computer diskette formats) in the Program Binder. To request a Program Binder, complete a TRANS Application form.

**BELMONT FIRE PROTECTION DISTRICT RESOLUTION NO. \_\_\_\_\_**

**RESOLUTION OF THE BELMONT FIRE PROTECTION DISTRICT  
AUTHORIZING AND APPROVING THE BORROWING  
OF FUNDS FOR FISCAL YEAR 2009-2010; THE ISSUANCE AND SALE  
OF A 2009-2010 TAX AND REVENUE ANTICIPATION NOTE  
THEREFORE AND PARTICIPATION IN THE CALIFORNIA  
COMMUNITIES CASH FLOW FINANCING PROGRAM**

**WHEREAS**, local agencies are authorized by Section 53850 to 53858, both inclusive, of the Government Code of the State of California (the “Act”) (being Article 7.6, Chapter 4, Part 1, Division 2, Title 5 of the Government Code) to borrow money by the issuance of temporary notes;

**WHEREAS**, the legislative body (the “Legislative Body”) of the local agency specified in Section 21 hereof (the “Local Agency”) has determined that a sum (the “Principal Amount”), not to exceed the Maximum Amount of Borrowing specified in Section 21 hereof, which Principal Amount is to be confirmed and set in the Pricing Confirmation (as defined in Section 4 hereof), is needed for the requirements of the Local Agency, to satisfy obligations of the Local Agency, and that it is necessary that said Principal Amount be borrowed for such purpose at this time by the issuance of a note or notes therefore in anticipation of the receipt of taxes, income, revenue, cash receipts and other moneys to be received by the Local Agency for the general fund of the Local Agency attributable to its fiscal year ending June 30, 2010 (“Repayment Fiscal Year”);

**WHEREAS**, the Local Agency hereby determines to borrow, for the purposes set forth above, the Principal Amount by the issuance of the Note, as hereinafter defined;

**WHEREAS**, it appears, and this Legislative Body hereby finds and determines, that the Principal Amount, when added to the interest payable thereon, does not exceed eighty-five percent (85%) of the estimated amount of the uncollected taxes, income, revenue (including, but not limited to, revenue from the state and federal governments), cash receipts and other moneys of the Local Agency attributable to the Repayment Fiscal Year, and available for the payment of the principal of the Note and the interest thereon;

**WHEREAS**, no money has heretofore been borrowed by or on behalf of the Local Agency through the issuance of tax and revenue anticipation notes or temporary notes in anticipation of the receipt of, or payable from or secured by, taxes, income, revenue, cash receipts or other moneys for the Repayment Fiscal Year;

**WHEREAS**, pursuant to Section 53856 of the Act, certain moneys which will be received by the Local Agency during and attributable to the Repayment Fiscal Year can be pledged for the payment of the principal of the Note and the interest thereon (as hereinafter provided);

**WHEREAS**, the Local Agency has determined that it is in the best interests of the Local Agency to participate in the California Communities Cash Flow Financing Program (the “Program”),

whereby participating local agencies (collectively, the “Issuers”) will simultaneously issue tax and revenue anticipation notes;

**WHEREAS**, the Local Agency desires to have its Note marketed together with some or all of the notes issued by the Issuers participating in the Program;

**WHEREAS**, the California Statewide Communities Development Authority (the “Authority”) has sponsored the Program and, on behalf of the Issuers, has engaged the underwriter appointed in Section 20 hereof (the “Underwriter”), for the purpose of structuring one or more pools of notes or series of note participations (referred to herein as the “Note Participations”, the “Series” and/or the “Series of Note Participations”) distinguished by whether and what type(s) of Credit Instrument (as hereinafter defined) secures notes that are part of each Series, by the principal amounts of the notes assigned to the Series, by whether interest on the Series of Note Participations is a fixed rate of interest or a variable rate of interest swapped to a fixed rate, by whether interest on the Series of Note Participations is includable in gross income for federal income tax purposes, or by other factors, all of which the Local Agency hereby authorizes the Underwriter to determine;

**WHEREAS**, the Program requires the Issuers participating in any particular Series to deposit their tax and revenue anticipation notes with a trustee, pursuant to a trust agreement (the “Trust Agreement”) among such Issuers, the Local Agency, the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”);

**WHEREAS**, the Program requires the Trustee, pursuant to the Trust Agreement, to execute and deliver the Note Participations evidencing and representing proportionate, undivided interests in the payments of principal of and interest on the notes that are part of such Series;

**WHEREAS**, the Local Agency desires to have the Trustee execute and deliver a Series of Note Participations which evidence and represent interests of the Owners, as defined in the Trust Agreement, thereof in the Note and the Notes issued by other Issuers in such Series;

**WHEREAS**, as additional security for the Owners of the Note Participations, all or a portion of the payments by all of the Issuers of their respective notes may or may not be secured either by an irrevocable letter (or letters) of credit or policy (or policies) of insurance or other credit instrument (or instruments) (collectively, the “Credit Instrument”) issued by the credit provider or credit providers designated in the Trust Agreement, as finally executed (collectively, the “Credit Provider”), which may be issued pursuant to a credit agreement or agreements or commitment letter or letters designated in the Trust Agreement (collectively, the “Credit Agreement”) between the Issuers and the respective Credit Provider;

**WHEREAS**, the net proceeds of the Note may be invested by the Local Agency in Permitted Investments (as defined in the Trust Agreement) or in any other investment permitted by the laws of the State of California, as now in effect and as hereafter amended, modified or supplemented from time to time;

**WHEREAS**, the Program requires that each participating Issuer approve the Trust Agreement and the alternative Credit Instruments, if any, in substantially the forms presented to the

Legislative Body, or, in the case of the Credit Instruments, if any, if not presented, in a form which complies with such requirements and standards as may be determined by the Legislative Body, with the final form and type of Credit Instrument and corresponding Credit Agreement, if any, determined upon execution of the Pricing Confirmation by the Authorized Representative;

**WHEREAS**, pursuant to the Program each participating Issuer will be responsible for its share of (a) the fees of the Trustee and the costs of issuing the applicable Series of Note Participations, and (b), if applicable, the fees of the Credit Provider, the Issuer's allocable share of all Predefault Obligations and the Issuer's Reimbursement Obligations, if any (each as defined in the Trust Agreement);

**WHEREAS**, pursuant to the Program, the Note and the Notes issued by other Issuers participating in the same Series (all as evidenced and represented by a Series of Note Participations) will be offered for sale through negotiation with the Underwriter pursuant to the terms and provisions of a purchase agreement, which shall be in substantially the same form as the purchase agreement presented to this meeting (the "Purchase Agreement");

**WHEREAS**, the Trust Agreement provides, among other things, that for the benefit of Owners of Note Participations and the Credit Provider, if any, the Local Agency shall provide notices of the occurrence of certain enumerated events, if deemed by the Local Agency to be material.

**WHEREAS**, the Local Agency has determined that it may be desirable to provide for the issuance of an additional parity note (the "Parity Note") during the Repayment Fiscal Year, the principal and interest on which are secured by Pledged Revenues, hereinafter defined, on a parity with the Note.

**WHEREAS**, the Local Agency has determined that, in order to reduce interest costs, it may be desirable to enter into one or more interest rate swaps; and

**WHEREAS**, it is necessary to engage the services of certain professionals to assist the Local Agency in its participation in the Program;

**NOW, THEREFORE**, this Legislative Body hereby finds, determines, declares and resolves as follows:

**Section 2. Recitals.** All the above recitals are true and correct.

**Section 3. Authorization of Issuance.** This Legislative Body hereby determines to borrow solely for the purpose of anticipating taxes, income, revenue, cash receipts and other moneys to be received by the Local Agency for the general fund of the Local Agency attributable to the Repayment Fiscal Year, by the issuance of a note or notes, pursuant to the provisions of the Act, designated the Local Agency's "2009 Tax and Revenue Anticipation Note," with an appropriate series designation if more than one note is issued (collectively, the "Note"), to be issued in the form of a fully registered note or notes in the Principal Amount thereof, to be dated the date of its delivery to the initial purchaser thereof, to mature (without option of prior redemption) not more than 13 months thereafter on a date indicated on the face thereof and determined in the Pricing Confirmation (the "Maturity Date"), and to bear interest, payable on its Maturity Date

(and if the Maturity Date is more than 12 months from the date of issuance, payable on the interim interest payment date set forth in the Pricing Confirmation) and computed upon the basis of a 360-day year consisting of twelve 30-day months, or a 365- or 366-day year, as the case may be, and actual days elapsed, at a rate or rates, if more than one Note is issued, not to exceed 12% per annum as determined in the Pricing Confirmation and indicated on the face of the Note (the "Note Rate"). If a Credit Instrument secures in whole or in part the Note or the Note as evidenced by the Series of Note Participations and all principal of and interest on the Note is not paid in full at maturity or if payment of principal and/or interest on the Note is paid (in whole or in part) by a draw under, payment by or claim upon a Credit Instrument which draw or claim is not fully reimbursed on such date, such Note shall become a Defaulted Note (as defined in the Trust Agreement), and the unpaid portion thereof (including the interest component, if applicable) thereof (or the portion (including the interest component, if applicable) thereof with respect to which a Credit Instrument applies for which reimbursement on a draw, payment or claim has not been fully made) shall be deemed outstanding and shall continue to bear interest thereafter until paid at the Default Rate (as defined in the Trust Agreement). If the Note as evidenced and represented by the Series of Note Participations is unsecured in whole or in part and the Note is not fully paid at maturity, the unpaid portion thereof (or the portion thereof to which no Credit Instrument applies which is unpaid) shall be deemed outstanding and shall continue to bear interest thereafter until paid at the Default Rate. In each case set forth in the preceding two sentences, the obligation of the Local Agency with respect to such Defaulted Note or unpaid Note shall not be a debt or liability of the Local Agency prohibited by Article XVI, Section 18 of the California Constitution, and the Local Agency shall not be liable thereon except to the extent of any available revenues attributable to the Repayment Fiscal Year, as provided in Section 8 hereof. The percentage of the Note as evidenced and represented by the Series of Note Participations to which a Credit Instrument, if any, applies (the "Secured Percentage") shall be equal to the amount of the Credit Instrument divided by the aggregate amount of unpaid principal of and interest on notes (or portions thereof) of all Issuers of Notes that are part of such Series of Note Participations, expressed as a percentage (but not greater than 100%) as of the maturity date. Both the principal of and interest on the Note shall be payable in lawful money of the United States of America.

The Note shall be issued in conjunction with the note or notes of one or more other Issuers as part of the Program and within the meaning of Section 53853 of the Act.

Anything in this Resolution to the contrary notwithstanding, the Pricing Confirmation (defined below) may specify that a portion of the authorized Principal Amount of the Note shall be issued as a taxable Note the interest on which is includable in the gross income of the holder thereof for federal income tax purposes (a "Taxable Note"). In such event, the Taxable Note shall be issued with an appropriate series designation and other terms reflecting such taxability of interest income, including without limitation, a taxable Note Rate and a taxable Default Rate; the term Note, and other terms as appropriate, shall be deemed to include or refer to such Taxable Note; and the agreements, covenants and provisions set forth in this Resolution to be performed by or on behalf of the Local Agency shall be for the equal and proportionate benefit, security and protection of the holder of any Note without preference, priority or distinction as to security or otherwise of any Note over another Note.

**Section 4. Form of Note.** The Note shall be issued in fully registered form without coupons and shall be substantially in the form and substance set forth in Exhibit A, as attached hereto and by reference incorporated herein, the blanks in said form to be filled in with appropriate words and figures as determined at closing.

**Section 5. Sale of Note; Delegation.** The Note Participations (which evidence an interest in the Note which shall be delivered to the Trustee) shall be sold to the Underwriter pursuant to the terms and provisions of the Purchase Agreement. The form of the Purchase Agreement, including the form of the Pricing Confirmation set forth as an exhibit thereto (the “Pricing Confirmation”), presented to this meeting is hereby approved. The authorized representatives set forth in Section 21 hereof (each, the “Authorized Representative”) are each hereby authorized and directed to execute and deliver the Purchase Agreement in substantially said form, with such changes thereto as such Authorized Representative shall approve, such approval to be conclusively evidenced by his or her execution and delivery thereof; *provided, however*, that the Note Rate shall not exceed 12% per annum, and that the Local Agency’s *pro rata* share of Underwriter’s discount on the Note, when added to the Local Agency’s share of the costs of issuance of the Note Participations, shall not exceed 1.0% of the Principal Amount of the Note and the Principal Amount shall not exceed the Maximum Amount of Borrowing. Delivery of an executed copy of the Pricing Confirmation by fax or telecopy shall be deemed effective upon execution and delivery for all purposes.

**Section 6. Program Approval.** The Note shall be combined with notes of other Issuers into a Series as set forth in the Preliminary Official Statement, hereinafter mentioned, and shall be sold simultaneously with such other notes of that Series secured by the Credit Instrument (if any) referred to in the Pricing Confirmation, and shall be evidenced and represented by the Note Participations which shall evidence and represent proportionate, undivided interests in the Note in the proportion that the face amount of the Note bears to the total aggregate face amount of the Note and the notes issued by other Issuers which the Series of Note Participations represent. Such Note Participations may be delivered in book-entry form.

The forms of Trust Agreement and alternative general types and forms of Credit Agreements, if any, presented to this meeting are hereby approved, and the Authorized Representative is hereby authorized and directed to execute and deliver the Trust Agreement and a Credit Agreement, if applicable, which shall be identified in the Pricing Confirmation, in substantially one or more of said forms (a substantially final form of Credit Agreement to be delivered to the Authorized Representative following the execution by the Authorized Representative of the Pricing Confirmation), with such changes therein as said officer shall require or approve, such approval of this Legislative Body and such officer to be conclusively evidenced by the execution of the Trust Agreement and the Credit Agreement, if any. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Final Official Statement. The Authorized Representative is hereby authorized and directed to comply with and carry out all of the provisions of the Trust Agreement with respect to continuing disclosure; *provided, however*, that failure of the Local Agency to comply with the Continuing Disclosure Agreement, as defined in Article 11 of the Trust Agreement, shall not be considered an Event of Default hereunder. Any Credit Agreement identified in the Pricing Confirmation but not at this time before the Legislative Body shall include reasonable and customary terms and provisions

relating to fees, increased costs of the Credit Provider payable by the Local Agency, negative and affirmative covenants of the Local Agency and events of default. The form of the Preliminary Official Statement presented to this meeting is hereby approved, and the Underwriter is hereby authorized and directed to cause to be mailed to prospective bidders the Preliminary Official Statement in connection with the offering and sale of the Note Participations.

Any one of the Authorized Representatives of the Local Agency is hereby authorized and directed to provide the Underwriter with such information relating to the Local Agency as they shall reasonably request for inclusion in the Preliminary Official Statement and Official Statement. Upon inclusion of the information relating to the Local Agency therein, the Preliminary Official Statement is, except for certain omissions permitted by Rule 15c2-12 of the Securities Exchange Act of 1934, as amended (the "Rule"), hereby deemed final within the meaning of the Rule; *provided* that no representation is made as to the information contained in the Preliminary Official Statement relating to the other Issuers or any Credit Provider. If, at any time prior to the end of the underwriting period, as defined in the Rule, any event occurs as a result of which the information contained in the Preliminary Official Statement relating to the Local Agency might include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the Local Agency shall promptly notify the Underwriter. The Authority is hereby authorized and directed, at or after the time of the sale of any Series of Note Participations, for and in the name and on behalf of the Local Agency, to execute a final Official Statement in substantially the form of the Preliminary Official Statement presented to this meeting, with such additions thereto or changes therein as the Authority may approve, such approval to be conclusively evidenced by the execution and delivery thereof.

The Trustee is authorized and directed to execute Note Participations on behalf of the Local Agency pursuant to the terms and conditions set forth in the Trust Agreement, in the aggregate principal amount specified in the Trust Agreement, and substantially in the form and otherwise containing the provisions set forth in the form of the Note Participations contained in the Trust Agreement. When so executed, the Note Participations shall be delivered by the Trustee to the Underwriter upon payment of the purchase price thereof, pursuant to the terms of the Trust Agreement.

Subject to Section 8 hereof, the Local Agency hereby agrees that if the Note as evidenced and represented by the Series of Note Participations shall become a Defaulted Note, the unpaid portion (including the interest component, if applicable) thereof or the portion (including the interest component, if applicable) to which a Credit Instrument applies for which full reimbursement on a draw, payment or claim has not been made by the Maturity Date shall be deemed outstanding and shall not be deemed to be paid until (i) any Credit Provider providing a Credit Instrument with respect to the Series of Note Participations, and therefore with respect to all or a portion of the Local Agency's Note, has been reimbursed for any drawings, payments or claims made under or from the Credit Instrument with respect to the Note, including interest accrued thereon, as provided therein and in the applicable Credit Agreement, and (ii) the holders of the Series of the Note Participations which evidence and represent the Note are paid the full principal amount represented by the unsecured portion of the Note plus interest accrued thereon

(calculated at the Default Rate) to the date of deposit of such aggregate required amount with the Trustee. For purposes of clause (ii) of the preceding sentence, holders of the Series of Note Participations will be deemed to have received such principal amount upon deposit of such moneys with the Trustee.

The Local Agency agrees to pay or cause to be paid, in addition to the amounts payable under the Note, any fees or expenses of the Trustee and, to the extent permitted by law, if the Local Agency's Note as evidenced and represented by the Series of Note Participations is secured in whole or in part by a Credit Instrument, any Predefault Obligations and Reimbursement Obligations (to the extent not payable under the Note), (i) arising out of an "Event of Default" hereunder (or pursuant to Section 7 hereof) or (ii) arising out of any other event (other than an event arising solely as a result of or otherwise attributable to a default by any other Issuer). In the case described in (ii) above with respect to Predefault Obligations, the Local Agency shall owe only the percentage of such fees, expenses and Predefault Obligations equal to the ratio of the principal amount of its Note over the aggregate principal amounts of all notes, including the Note, of the Series of which the Note is a part, at the time of original issuance of such Series. Such additional amounts will be paid by the Local Agency within twenty-five (25) days of receipt by the Local Agency of a bill therefor from the Trustee.

**Section 7. No Joint Obligation; Owners' Rights.** The Note shall be marketed and sold simultaneously with the notes of other Issuers and shall be aggregated and combined with notes of other Issuers participating in the Program into a Series of Note Participations evidencing and representing an interest in several, and not joint, obligations of each Issuer. The obligation of the Local Agency to Owners is a several and not a joint obligation and is strictly limited to the Local Agency's repayment obligation under this Resolution and the Note, as evidenced and represented by such Series of Note Participations.

Owners of Note Participations, to the extent of their interest in the Note, and the Credit Provider, if any, shall be treated as owners of the Note and shall be entitled to all the rights and security thereof in accordance with the Trust Agreement, including the right to enforce the obligations and covenants contained in this Resolution and the Note. The Local Agency hereby recognizes the right of the Owners and the Credit Provider, if any, acting directly or through the Trustee to enforce the obligations and covenants contained in the Note, this Resolution and the Trust Agreement. The Local Agency shall be directly obligated to each Owner for the principal and interest payments on the Note evidenced and represented by the Note Participations without any right of counterclaim or offset arising out of any act or failure to act on the part of the Trustee.

**Section 8. Disposition of Proceeds of Note.** The moneys received from the sale of the Note allocable to the Local Agency's share of the costs of issuance (which shall include any issuance fees in connection with a Credit Instrument applicable to the Note, if any) shall be deposited in the Costs of Issuance Fund held and invested by the Trustee under the Trust Agreement and expended on costs of issuance as provided in the Trust Agreement. The moneys received from the sale of the Note (net of the Local Agency's share of the costs of issuance) shall be deposited in the Local Agency's Proceeds Subaccount within the Proceeds Fund hereby authorized to be created pursuant to, and held and invested by the Trustee under, the Trust Agreement for the Local Agency and said moneys may be used and expended by the Local Agency for any purpose

for which it is authorized to expend funds upon requisition from the Proceeds Subaccount as specified in the Trust Agreement. Amounts in the Proceeds Subaccount are hereby pledged to the payment of the Note.

The Trustee will not create subaccounts within the Proceeds Fund, but will keep records to account separately for proceeds of the Note Participations allocable to the Local Agency's Note on deposit in the Proceeds Fund which shall constitute the Local Agency's Proceeds Subaccount.

**Section 9. Source of Payment.** The principal amount of the Note, together with the interest thereon, shall be payable from taxes, income, revenue (including, but not limited to, revenue from the state and federal governments), cash receipts and other moneys which are received or held by the Local Agency for the general fund of the Local Agency and are attributable to the Repayment Fiscal Year and which are available for payment thereof. As security for the payment of the principal of and interest on the Note, the Local Agency hereby pledges all Unrestricted Revenues (as hereinafter provided, the "Pledged Revenues") which are received or held by the Local Agency for the general fund of the Local Agency and are attributable to the Repayment Fiscal Year, and the principal of the Note and the interest thereon shall constitute a first lien and charge thereon and shall be payable from the first moneys received by the Local Agency from such Pledged Revenues and, to the extent not so paid, shall be paid from any other taxes, income, revenue, cash receipts and other moneys of the Local Agency lawfully available therefor (all as provided for in Sections 53856 and 53857 of the Act). The term "Unrestricted Revenues" shall mean all taxes, income, revenue (including, but not limited to, revenue from the state and federal governments), cash receipts, and other moneys, intended as receipts for the general fund of the Local Agency attributable to the Repayment Fiscal Year and which are generally available for the payment of current expenses and other obligations of the Local Agency. The holders of the Notes, Owners and Credit Provider shall have a first lien and charge on such Unrestricted Revenues as herein provided which are received or held by the Local Agency and are attributable to the Repayment Fiscal Year.

In order to effect the pledge referenced in the preceding paragraph, the Local Agency hereby agrees to the establishment and maintenance of a special account of the Local Agency (the "Payment Account") by the Trustee as the responsible agent to maintain such an account until the payment of the principal of the Note and the interest thereon, and the Local Agency further agrees to cause to be deposited in the Payment Account the first amounts received in the months specified in the Pricing Confirmation as Repayment Months (each individual month a "Repayment Month" and collectively "Repayment Months") (and any amounts received thereafter attributable to Repayment Fiscal Year) until the amount on deposit in the Payment Account, is equal in the respective Repayment Months identified in the Pricing Confirmation to the percentage of the principal and interest due on the Note specified in the Pricing Confirmation. Any such deposit may take into consideration anticipated investment earnings on amounts deposited in an Investment Agreement, that is a Permitted Investment, as defined in the Trust Agreement, through the Maturity Date. Transfers from the Payment Account shall be made in accordance with the Trust Agreement.

Any Authorized Representative of the Local Agency is hereby authorized to approve the determination of the Repayment Months and percentages of the principal and interest due on the

Note required to be on deposit in the Payment Account in each Repayment Month, all as specified in the Pricing Confirmation, by executing and delivering the Pricing Confirmation, such execution and delivery to be conclusive evidence of approval by this Legislative Body and such Authorized Representative; provided, however, that the maximum number of Repayment Months shall be six and the maximum amount of Pledged Revenues required to be deposited in each Repayment Month shall not exceed fifty percent (50%) of the aggregate principal and interest due on the Note. In the event on the day in each such Repayment Month that a deposit to the Payment Account is required to be made, the Local Agency has not received sufficient unrestricted revenues to permit the deposit into the Payment Account of the full amount of Pledged Revenues to be deposited in the Payment Account from said unrestricted revenues in said month, then the amount of any deficiency shall be satisfied and made up from any other moneys of the Local Agency lawfully available for the payment of the principal of the Note and the interest thereon, as and when such other moneys are received or are otherwise legally available.

Any moneys placed in the Payment Account shall be for the benefit of (i) the owner of the Note and (ii) (to the extent provided in the Trust Agreement) the Credit Provider, if any. The moneys in the Payment Account shall be applied only for the purposes for which the Payment Account is created until the principal of the Note and all interest thereon are paid or until provision has been made for the payment of the principal of the Note at maturity with interest to maturity (in accordance with the requirements for defeasance of the Note Participations as set forth in the Trust Agreement) and (to the extent provided in the Trust Agreement and, if applicable, the Credit Agreement) the payment of all Predefault Obligations and Reimbursement Obligations owing to the Credit Provider.

The Local Agency hereby directs the Trustee to transfer on the Note Payment Deposit Date (as defined in the Trust Agreement), any moneys in the Payment Account to the Note Participation Payment Fund (as defined in the Trust Agreement). In the event that moneys in the Payment Account are insufficient to pay the principal of and interest on the Note in full when due, such moneys shall be applied in the following priority: first, to pay interest on the Note; second, to pay principal of the Note; third, to reimburse the Credit Provider for payment, if any, of interest with respect to the Note; fourth, to reimburse the Credit Provider for payment, if any, of principal with respect to the Note; and fifth, to pay any Reimbursement Obligations of the Local Agency and any of the Local Agency's pro rata share of Predefault Obligations owing to the Credit Provider. Any moneys remaining in or accruing to the Payment Account after the principal of the Note and the interest thereon and any Predefault Obligations and Reimbursement Obligations, if applicable, have been paid, or provision for such payment has been made, shall be transferred to the general fund of the Local Agency, subject to any other disposition required by the Trust Agreement, or, if applicable, the Credit Agreement. Nothing herein shall be deemed to relieve the Local Agency from its obligation to pay its Note in full on the Maturity Date.

Moneys in the Proceeds Subaccount and in the Payment Account shall be invested by the Trustee pursuant to the Trust Agreement as directed by the Local Agency in Permitted Investments as described in and under the terms of the Trust Agreement. Any such investment by the Trustee shall be for the account and risk of the Local Agency, and the Local Agency shall not be deemed to be relieved of any of its obligations with respect to the Note, the Predefault

Obligations or Reimbursement Obligations, if any, by reason of such investment of the moneys in its Proceeds Subaccount or the Payment Account.

The Local Agency shall promptly file with the Trustee and the Credit Provider, if any, such financial reports at the times and in the forms required by the Trust Agreement. At the written request of the Credit Provider, if any, the Local Agency shall, within ten (10) Business Days following the receipt of such written request, file such report or reports to evidence the transfer to and deposit in the Payment Account required by this Section 8 and provide such additional financial information as may be required by the Credit Provider, if any.

Anything herein to the contrary notwithstanding, the Local Agency may at any time during the Repayment Fiscal Year issue a Parity Note, in an amount not to exceed \$[NOT TO EXCEED AMT], secured by a first lien and charge on Pledged Revenues; provided that (i) such Parity Note shall have the same Repayment Months as the Note, shall be payable as to principal and interest in such Repayment Months in amounts corresponding on a pro rata basis to the schedule of principal and interest payable in such Repayment Months on the Note and the rating on such Parity Note (or related series of note participations if sold into a pool) shall not be less than the rating on the Series of Note Participations related to the Note and (ii) the Local Agency shall have received the written consent of the Credit Provider, if any, to the issuance of the Parity Note by the Local Agency. In the event that the Local Agency issues a Parity Note, the Local Agency shall make appropriate deposits into the Payment Account with respect to such Parity Note, and in such event, the Payment Account shall also be held for the benefit of the holders of the Parity Note.

**Section 10. Execution of Note.** Any one of the Authorized Representatives of the Local Agency or any other officer designated by the Legislative Body shall be authorized to execute the Note by manual or facsimile signature, and the Secretary or Clerk of the Legislative Body of the Local Agency or any duly appointed assistant thereto shall be authorized to countersign the Note by manual or facsimile signature. Said officers of the Local Agency are hereby authorized to cause the blank spaces of the Note to be filled in as may be appropriate pursuant to the Pricing Confirmation. Said officers are hereby authorized and directed to cause the Trustee, as registrar and authenticating agent, to accept delivery of the Note pursuant to the terms and conditions of the Purchase Agreement and Trust Agreement. In case any officer whose signature shall appear on any Note shall cease to be such officer before the delivery of such Note, such signature shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office until delivery. The Note need not bear the seal of the Local Agency, if any.

**Section 11. Representations and Covenants of the Local Agency.** The Local Agency makes the following representations for the benefit of the holder of the note, the owners of the Note Participations, the Underwriter and the Credit Provider, if any.

(A) The Local Agency is duly organized and existing under and by virtue of the laws of the State of California and has all necessary power and authority (i) to adopt this Resolution and perform its obligations thereunder, (ii) to enter into and perform its obligations under the Purchase Agreement, and (iii) to issue the Note and perform its obligations thereunder.

(B) Upon the issuance of the Note, the Local Agency shall have taken all action required to be taken by it to authorize the issuance and delivery of the Note and the performance of its obligations thereunder, and the Local Agency has full legal right, power and authority to issue and deliver the Note.

(C) The issuance of the Note, the adoption of the Resolution and the execution and delivery of the Purchase Agreement, Trust Agreement and Credit Agreement, if any, and compliance with the provisions hereof and thereof will not conflict with or violate any law, administrative regulation, court decree, resolution, charter, by-laws or other agreement to which the Local Agency is subject or by which it is bound.

(D) Except as may be required under blue sky or other securities laws of any state or Section 3(a)(2) of the Securities Act of 1933, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory authority having jurisdiction over the Local Agency required for the issuance and sale of the Note or the consummation by the Local Agency of the other transactions contemplated by this Resolution, except those the Local Agency shall obtain or perform prior to or upon the issuance of the Note.

(E) The Local Agency has (or will have prior to the issuance of the Note) duly, regularly and properly adopted a preliminary budget for the Repayment Fiscal Year setting forth expected revenues and expenditures and has complied with all statutory and regulatory requirements with respect to the adoption of such budget. The Local Agency hereby covenants that it shall (i) duly, regularly and properly prepare and adopt its final budget for the Repayment Fiscal Year, (ii) provide to the Trustee, the Credit Provider, if any, and the Underwriter, promptly upon adoption, copies of such final budget and of any subsequent revisions, modifications or amendments thereto and (iii) comply with all applicable laws pertaining to its budget.

(F) The sum of the principal amount of the Local Agency's Note plus the interest payable thereon, on the date of its issuance, will not exceed fifty percent (50%) of the estimated amounts of the Local Agency's uncollected taxes, income, revenue (including, but not limited to, revenue from the state and federal governments), cash receipts, and other moneys to be received by the Local Agency for the general fund of the Local Agency attributable to the Repayment Fiscal Year all of which will be legally available to pay principal of and interest on the Note.

(G) The Local Agency (i) has not defaulted within the past twenty (20) years, and is not currently in default, on any debt obligation and (ii), to the best knowledge of the Local Agency, has never defaulted on any debt obligation.

(H) The Local Agency's most recent audited financial statements present fairly the financial condition of the Local Agency as of the date thereof and the results of operation for the period covered thereby. Except as has been disclosed to the Underwriter and the Credit Provider, if any, there has been no change in the financial condition of the Local Agency since the date of such audited financial statements that will in the reasonable opinion of the Local Agency materially impair its ability to perform its obligations under this Resolution and the Note. The Local Agency agrees to furnish to the Underwriter, the Authority, the Trustee and the Credit Provider, if any, promptly, from time to time, such information regarding the operations, financial condition and property of the Local Agency as such party may reasonably request.

(I) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, arbitrator, governmental or other board, body or official, pending or, to the best knowledge of the Local Agency, threatened against or affecting the Local Agency questioning the validity of any proceeding taken or to be taken by the Local Agency in connection with the Note, the Purchase Agreement, the Trust Agreement, the Credit Agreement, if any, or this Resolution, or seeking to prohibit, restrain or enjoin the execution, delivery or performance by the Local Agency of any of the foregoing, or wherein an unfavorable decision, ruling or finding would have a materially adverse effect on the Local Agency's financial condition or results of operations or on the ability of the Local Agency to conduct its activities as presently conducted or as proposed or contemplated to be conducted, or would materially adversely affect the validity or enforceability of, or the authority or ability of the Local Agency to perform its obligations under, the Note, the Purchase Agreement, the Trust Agreement, the Credit Agreement, if any, or this Resolution.

(J) Upon issuance of the Note and execution of the Purchase Contract, this Resolution, the Purchase Contract and the Note will constitute legal, valid and binding agreements of the Local Agency, enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy or other laws affecting creditors' rights generally, the application of equitable principles if equitable remedies are sought, the exercise of judicial discretion in appropriate cases and the limitations on legal remedies against local agencies, as applicable, in the State of California.

(K) The Local Agency and its appropriate officials have duly taken, or will take, all proceedings necessary to be taken by them, if any, for the levy, receipt, collection and enforcement of the Pledged Revenues in accordance with law for carrying out the provisions of this Resolution and the Note.

(L) The Local Agency shall not incur any indebtedness secured by a pledge of its Pledged Revenues unless such pledge is subordinate in all respects to the pledge of Pledged Revenues hereunder.

(M) So long as the Credit Provider, if any, is not in payment default under the Credit Instrument, the Local Agency hereby agrees to pay its pro rata share of all Predefault Obligations and all Reimbursement Obligations attributable to the Local Agency in accordance with provisions of the Credit Agreement, if any, and/or the Trust Agreement, as applicable. Prior to the Maturity Date, moneys in the Local Agency's Payment Account and/or Payment Subaccount shall not be used to make such payments. The Local Agency shall pay such amounts promptly upon receipt of notice from the Credit Provider that such amounts are due to it.

(N) So long as any Note Participations executed and delivered in connection with the Notes are Outstanding, or any Predefault Obligation or Reimbursement Obligation is outstanding, the Local Agency will not create or suffer to be created any pledge of or lien on the Note other than the pledge and lien of the Trust Agreement.

(O) The information describing the Local Agency contained in the Official Statement (excluding the statements and information pertaining to the Credit Provider and information under the heading "UNDERWRITING" and in the Appendix entitled "BOOK-ENTRY ONLY

SYSTEM”), as of the time of delivery thereof to the Underwriter and at all times subsequent thereto up to and including the Closing, will be true, complete, correct and final in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(P) The information contained in the Credit Questionnaire (including the Cashflow Worksheet therein) (the “Credit Questionnaire”) completed by the Local Agency and submitted to the Authority and the Underwriter, will be at the time submitted and on the Closing Date true and accurate.

**Section 12. Tax Covenants.** The Local Agency will not take any action or fail to take any action if such action or failure to take such action would adversely affect the exclusion from gross income of the interest payable on the Note under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Without limiting the generality of the foregoing, the Local Agency will not make any use of the proceeds of the Note or any other funds of the Local Agency which would cause the Note to be an “arbitrage bond” within the meaning of Section 148 of the Code, a “private activity bond” within the meaning of Section 141(a) of the Code, or an obligation the interest on which is subject to federal income taxation because it is “federally guaranteed” as provided in Section 149(b) of the Code. The Local Agency, with respect to the proceeds of the Note, will comply with all requirements of such sections of the Code and all regulations of the United States Department of the Treasury issued or applicable thereunder to the extent that such requirements are, at the time, applicable and in effect.

The Local Agency hereby (i) represents that the aggregate face amount of all tax-exempt obligations (including any tax-exempt leases, but excluding private activity bonds), issued and to be issued by the Local Agency during calendar year 2009, including the Note, is not reasonably expected to exceed \$5,000,000; **or, in the alternative,** (ii) covenants that the Local Agency will take all legally permissible steps necessary to ensure that all of the gross proceeds of the Note will be expended no later than the day that is six months after the date of issuance of the Note so as to satisfy the requirements of Section 148(f)(4)(B) of the Code.

Notwithstanding any other provision of this Resolution to the contrary, upon the Local Agency’s failure to observe, or refusal to comply with, the covenants contained in this Section 11, no one other than the holders or former holders of the Note, the Owners or the Trustee on their behalf shall be entitled to exercise any right or remedy under this Resolution on the basis of the Local Agency’s failure to observe, or refusal to comply with, such covenants.

The covenants contained in this Section 11 shall survive the payment of the Note.

The provisions of this Section 11 shall not apply to a Taxable Note.

**Section 13. Events of Default and Remedies.**

If any of the following events occur, it is hereby defined as and declared to be and to constitute an “Event of Default”:

(a) Failure by the Local Agency to make or cause to be made the transfers and deposits to the Payment Account, or any other payment required to be paid hereunder, including payment of principal and interest on the Note, on or before the date on which such transfer, deposit or other payment is due and payable;

(b) Failure by the Local Agency to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Resolution, for a period of fifteen (15) days after written notice, specifying such failure and requesting that it be remedied, is given to the Local Agency by the Trustee or the Credit Provider, if applicable, unless the Trustee and the Credit Provider shall agree in writing to an extension of such time prior to its expiration;

(c) Any warranty, representation or other statement by or on behalf of the Local Agency contained in this Resolution or the Purchase Agreement (including the Pricing Confirmation) or in any requisition or any financial report delivered by the Local Agency or in any instrument furnished in compliance with or in reference to this Resolution or the Purchase Agreement or in connection with the Note, is false or misleading in any material respect;

(d) A petition is filed against the Local Agency under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect and is not dismissed within 30 days after such filing, but the Trustee shall have the right to intervene in the proceedings prior to the expiration of such 30 days to protect its and the Owners' interests;

(e) The Local Agency files a petition in voluntary bankruptcy or seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law; or

(f) The Local Agency admits insolvency or bankruptcy or is generally not paying its debts as such debts become due, or becomes insolvent or bankrupt or makes an assignment for the benefit of creditors, or a custodian (including without limitation a receiver, liquidator or trustee) of the Local Agency or any of its property is appointed by court order or takes possession thereof and such order remains in effect or such possession continues for more than 30 days, but the Trustee shall have the right to intervene in the proceedings prior to the expiration of such 30 days to protect its and the Owners' interests;

Whenever any Event of Default referred to in this Section 12 shall have happened and be continuing, the Trustee shall, in addition to any other remedies provided herein or by law or under the Trust Agreement, have the right, at its option without any further demand or notice, to take one or any combination of the following remedial steps:

(a) Without declaring the Note to be immediately due and payable, require the Local Agency to pay to the Trustee, as holder of the Note, an amount equal to the principal of the Note and interest thereon to maturity, plus all other amounts due hereunder, and upon notice to the Local Agency the same shall become immediately due and payable by the Local Agency without further notice or demand; and

(b) Take whatever other action at law or in equity (except for acceleration of payment on the Note) which may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce any other of its rights hereunder.

Notwithstanding the foregoing, if the Local Agency's Note is secured in whole or in part by a Credit Instrument or if the Credit Provider is subrogated to rights under the Local Agency's Note, as long as the Credit Provider is not in default of its payment obligations under the Credit Instrument, the Credit Provider shall have the right to direct the remedies upon any Event of Default hereunder, and the Credit Provider's prior consent shall be required to any remedial action proposed to be taken by the Trustee hereunder.

If the Credit Provider is not reimbursed for any drawing, payment or claim, as applicable, used to pay principal of and interest on the Note due to a default in payment on the Note by the Local Agency, or if any principal of or interest on the Note remains unpaid after the Maturity Date, the Note shall be a Defaulted Note, the unpaid portion (including the interest component, if applicable) thereof or the portion (including the interest component, if applicable) to which a Credit Instrument applies for which reimbursement on a draw, payment or claim has not been made shall be deemed outstanding and shall bear interest at the Default Rate until the Local Agency's obligation on the Defaulted Note is paid in full or payment is duly provided for, all subject to Section 8 hereof.

**Section 14. Trustee.** The Trustee is hereby appointed as paying agent, registrar and authenticating agent for the Note. The Local Agency hereby directs and authorizes the payment by the Trustee of the interest on and principal of the Note when such become due and payable, from the Payment Account held by the Trustee in the name of the Local Agency in the manner set forth herein. The Local Agency hereby covenants to deposit funds in such account at the time and in the amount specified herein to provide sufficient moneys to pay the principal of and interest on the Note on the day on which it matures. Payment of the Note shall be in accordance with the terms of the Note and this Resolution.

The Local Agency hereby agrees to maintain as paying agent, registrar and authenticating agent of the Note, the Trustee under the Trust Agreement.

**Section 15. Approval of Actions.** The aforementioned Authorized Representatives of the Local Agency are hereby authorized and directed to execute the Note and cause the Trustee to authenticate and accept delivery of the Note, pursuant to the terms and conditions of this Resolution and the Trust Agreement. All actions heretofore taken by the officers and agents of the Local Agency or this Legislative Body with respect to the sale and issuance of the Note and participation in the Program are hereby approved, confirmed and ratified, and the Authorized

Representatives and agents of the Local Agency are hereby authorized and directed, for and in the name and on behalf of the Local Agency, to do any and all things and take any and all actions and execute any and all certificates, agreements and other documents which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Note in accordance with, and related transactions contemplated by, this Resolution. Each of the Authorized Representatives of the Local Agency referred to in Section 21 hereof is hereby designated as an “Authorized Local Agency Representative” under the Trust Agreement.

In the event that the Note or a portion thereof is secured by a Credit Instrument, any Authorized Representative of the Local Agency is hereby authorized and directed to provide the Credit Provider, with any and all information relating to the Local Agency as such Credit Provider may reasonably request.

**Section 16. Proceedings Constitute Contract.** The provisions of the Note and of this Resolution shall constitute a contract between the Local Agency and the registered owner of the Note and the Credit Provider, if any, and such provisions shall be enforceable by mandamus or any other appropriate suit, action or proceeding at law or in equity in any court of competent jurisdiction, and shall be irrevocable. The Credit Provider, if any, is a third party beneficiary of the provisions of this Resolution and the Note.

**Section 17. Limited Liability.** Notwithstanding anything to the contrary contained herein or in the Note or in any other document mentioned herein, the Local Agency shall not have any liability hereunder or by reason hereof or in connection with the transactions contemplated hereby except to the extent payable from moneys available therefor as set forth in Section 8 hereof.

**Section 18. Amendments.** At any time or from time to time, the Local Agency may adopt one or more Supplemental Resolutions with the written consents of the Authority and the Credit Provider, if any, but without the necessity for consent of the owner of the Note for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Local Agency in this Resolution, other covenants and agreements to be observed by the Local Agency which are not contrary to or inconsistent with this Resolution as theretofore in effect;

(b) to add to the limitations and restrictions in this Resolution, other limitations and restrictions to be observed by the Local Agency which are not contrary to or inconsistent with this Resolution as theretofore in effect;

(c) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Resolution, of any monies, securities or funds, or to establish any additional funds or accounts to be held under this Resolution;

(d) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution; or

(e) to amend or supplement this Resolution in any other respect;

provided, however, that any such Supplemental Resolution does not adversely affect the interests of the owner of the Note or of the Note Participations executed and delivered in connection with the Notes.

Any modifications or amendment of this Resolution and of the rights and obligations of the Local Agency and of the owner of the Note or of the Note Participations executed and delivered in connection with the Notes may be made by a Supplemental Resolution, with the written consents of the Authority and the Credit Provider, if any, and with the written consent of the owners of at least a majority in principal amount of the Note and of the Note Participations executed and delivered in connection with the Notes outstanding at the time such consent is given; *provided, however*, that if such modification or amendment will, by its terms, not take effect so long as the Note or any or of the Note Participations executed and delivered in connection with the Notes remain outstanding, the consent of the owners of such Note or of the Note Participations executed and delivered in connection with the Notes shall not be required. No such modification or amendment shall permit a change in the maturity of the Note or a reduction of the principal amount thereof or an extension of the time of any payment thereon or a reduction of the rate of interest thereon, or a change in the date or amounts of the pledge set forth in this Resolution, without the consent of the owners of such Note or the owners of all of the Note Participations executed and delivered in connection with the Notes, or shall reduce the percentage of the Note or the owners of all of the Note Participations executed and delivered in connection with the Notes, the consent of the owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of the Trustee without its written assent thereto.

**Section 19. Severability.** In the event any provision of this Resolution shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

**Section 20. Appointment of Bond Counsel.** The Local Agency approves and consents to the appointment of the law firm of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California as Bond Counsel for the Program. The Local Agency acknowledges that Bond Counsel regularly performs legal services for many private and public entities in connection with a wide variety of matters, and that Bond Counsel has represented, is representing or may in the future represent other public entities, underwriters, trustees, rating agencies, insurers, credit enhancement providers, lenders, financial and other consultants who may have a role or interest in the proposed financing or that may be involved with or adverse to Local Agency in this or some other matter. Given the special, limited role of Bond Counsel described above, the Local Agency acknowledges that no conflict of interest exists or would exist, waives any conflict of interest that might appear to exist, and consents to any and all such relationships.

**Section 21. Appointment of Underwriter.** The Local Agency approves and consents to the appointment of Barclays Capital Inc., as senior manager, together with such co-underwriters, if any, identified in the Purchase Contract, as Underwriter for the Program.

**Section 22. Resolution Parameters.**

- (a) Name of Local Agency: Belmont Fire Protection District
- (b) Maximum Amount of Borrowing: \$1,000,000
- (c) Authorized Representatives:

TITLE

(1) City Treasurer

(2) City Manager

(3) Finance Director

**Section 23. Effective Date.** This Resolution shall take effect from and after its date of adoption.

EXHIBIT A  
FORM OF NOTE  
[LOCAL AGENCY]

2009 TAX AND REVENUE ANTICIPATION NOTE, SERIES \_\_\_<sup>\*/</sup>

<u>Interest Rate</u> %	<u>Maturity Date</u>	Date of <u>Original Issue</u> July 1, 2009
First <u>Repayment Date</u>	Second <u>Repayment Date</u>	Third <u>Repayment Date</u>
___% (Total of principal and interest due on Note at maturity)	___% (Total of principal and interest due on Note at maturity)	___% (Total of principal and interest due on Note at maturity) <sup>**/</sup>

REGISTERED OWNER:

PRINCIPAL AMOUNT:

FOR VALUE RECEIVED, the Local Agency executing this Note (the "Local Agency") acknowledges itself indebted, and promises to pay, to the registered owner identified above, or registered assigns, on the maturity date set forth above, the principal sum specified above in lawful money of the United States of America, and to pay interest thereon on each Interest Payment Date, as defined in the Trust Agreement, at the Interest Rate specified above (the "Note Rate"). Principal of and interest on this Note are payable in such coin or currency of the United States as at the time of payment is legal tender for payment of private and public debts, such principal to be paid upon surrender hereof at the principal corporate trust office of Wells Fargo Bank, National Association in Los Angeles, California, or its successor in trust (the "Trustee"). Interest is payable as specified in the Trust Agreement. Interest shall be calculated on the basis of a 360-day year, consisting of twelve 30-day months, in like lawful money from the date hereof until the maturity date specified above and, if funds are not provided for payment at maturity, thereafter on the basis of a 360-day year for actual days elapsed until payment in full of said principal sum. Both the principal of and interest on this Note shall be payable only to the registered owner hereof upon surrender of this Note as the same shall fall due; *provided, however,* no interest shall be payable for any period after maturity during which the holder hereof fails to properly present this Note for payment. If the Local Agency fails to pay this Note when due or the Credit Provider (as defined in the Resolution hereinafter described), if any, is not reimbursed in full for the amount drawn on or paid pursuant to the Credit Instrument (as

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<sup>\*/</sup> If more than one Series is issued under the Program in the Repayment Fiscal Year.

<sup>\*\*/</sup> Number of Repayment Dates and percentages to be determined in Pricing Confirmation (as defined in the Resolution).

defined in the Resolution) to pay all or a portion of this Note on the date of such payment, this Note shall become a Defaulted Note (as defined and with the consequences set forth in the Resolution).

It is hereby certified, recited and declared that this Note (the "Note") represents the authorized issue of the Note in the aggregate principal amount made, executed and given pursuant to and by authority of certain resolutions of the Legislative Body of the Local Agency duly passed and adopted heretofore, under and by authority of Article 7.6 (commencing with Section 53850) of Chapter 4, Part 1, Division 2, Title 5 of the California Government Code (collectively, the "Resolution"), to all of the provisions and limitations of which the owner of this Note, by acceptance hereof, assents and agrees.

The principal of the Note, together with the interest thereon, shall be payable from taxes, income, revenue, cash receipts and other moneys which are received by the Local Agency for the general fund of the Local Agency and are attributable to the Repayment Fiscal Year, as defined in the Resolution, and which are available for payment thereof. As security for the payment of the principal of and interest on the Note, the Local Agency has pledged the first amounts of unrestricted revenues of the Local Agency received on the last day of the Repayment Months (as defined in the Resolution) identified in the Pricing Confirmation (as defined in the Resolution) (and any amounts received thereafter attributable to the Repayment Fiscal Year) until the amount on deposit in the Payment Account (as defined in the Resolution) in each such month, is equal to the corresponding percentages of principal of and interest due on the Note as set forth in the Pricing Confirmation (such pledged amounts being hereinafter called the "Pledged Revenues"), and the principal of the Note and the interest thereon shall constitute a first lien and charge thereon and shall be payable from the Pledged Revenues, and to the extent not so paid shall be paid from any other moneys of the Local Agency lawfully available therefor as set forth in the Resolution. The full faith and credit of the Local Agency is not pledged to the payment of the principal or interest on this Note.

The Local Agency and the Trustee may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payment of or on account of principal hereof and interest due hereon and for all other purposes, and the Local Agency and the Trustee shall not be affected by any notice to the contrary.

It is hereby certified that all of the conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Note do exist, have happened and have been performed in due time, form and manner as required by the Constitution and statutes of the State of California and that the amount of this Note, together with all other indebtedness of the Local Agency, does not exceed any limit prescribed by the Constitution or statutes of the State of California.

\* \* \* \* \*

I hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the Belmont Fire Protection District at a regular meeting thereof held on April 28, 2009 by the following vote:

AYES, DIRECTORS: \_\_\_\_\_

NOES, DIRECTORS: \_\_\_\_\_

ABSTAIN, DIRECTORS: \_\_\_\_\_

ABSENT, DIRECTORS: \_\_\_\_\_

\_\_\_\_\_  
Secretary, Belmont Fire Protection District

APPROVED:

\_\_\_\_\_  
President, Belmont Fire Protection District